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C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 005233

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SUBJECT: GOI'S EFFORTS AGAINST TERROR FINANCE IN GAZA; GOI
TO FUND PA SOCIAL WELFARE SYSTEM

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b) and (d)

1. (C) SUMMARY: MFA and NSC officials briefed econoff and poloff August 11 on the GOI's post-disengagement efforts against terror finance in Gaza. An Israeli National Security Council official said an alternative to the Hamas social service network in Gaza, operated by the Palestinian Authority (PA), and supported by the GOI is one way to stop terror finance in Gaza. The NSC official said this would strengthen the PA's credibility and broaden its sphere of influence as it helps Palestinians get on the road to economic recovery. He asserted that the GOI is working with the PA, specifically Finance Minister Salam Fayyad and President Mahmud Abbas, to establish and help fund such an organization. He said he would share his thinking with USG officials at State, Treasury and the NSC, when he visits the U.S. in the coming months. An MFA official stressed that the Israeli withdrawal from Gaza will impede GOI efforts against terror finance and that the PA would have to shoulder greater responsibility in monitoring and seizing terror money. He also commented on recent plans by the MFA to increase the budget and manpower of its counterterrorism department to bolster its effort and response capabilities in this area. END SUMMARY.

GOI-NSC: TF Efforts In Gaza Post-Disengagement

2. (C) On August 11, the GOI's National Security Council Counterterrorism Finance Bureau Director, Udi Levi, met with econoff and poloff regarding efforts against terror finance in the Gaza Strip. Levi said that success after disengagement will depend on ensuring that funds going to the Palestinian Authority (PA) -- including donations from the international community -- are used for legitimate purposes to strengthen the PA's authority and popularity among Gaza's residents. Levi said the GOI can approach fighting terrorism finance two ways: (1) it can take steps to undermine Hamas, which would end up hurting innocent people who receive assistance from Hamas, or (2) it can assist the PA in building a parallel structure to channel assistance to the unemployed and needy. It is critical that the Palestinian people see an alternative to Hamas, stressed Levi. He claimed that efforts are underway by the PA to establish a Social Security program in Gaza to meet the needs of Gaza's residents.

3. (C) Levi pointed out that the PA has already raised 60 million NIS for the Social Security program budget. He confided that the GOI has decided in principle to provide an additional 300 million NIS for the PA program, but that this allocation has not yet been announced. He envisions a situation in the future where the PA would raise 20 million NIS every month, and the GOI would match it. At issue now is who will receive this social assistance. GOI officials are discussing with Palestinian Finance Minister Salam Fayyad the definition of the term "needy." The GOI does not want the Palestinians to see social assistance coming from the GOI, the USG or other governments. Levi emphasized that it is important that the credibility of the PA among Palestinians remain intact.

4. (C) Israel will have to rely on Palestinian President Mahmud Abbas and Fayyad to work this out. Levi noted that Fayyad controls all of the PA's financial institutions, which makes it easy to work with the PA, but also potentially hazardous, as the GOI's reliance on one man makes it vulnerable. Levi acknowledged that there is an ongoing debate in the "Israeli security community" about the future of the PA and the fate of Abbas. Levi remarked that "we have to deal with the Palestinians because we do not have any alternative. On the other hand, we are not living in the Arafat era. If Abbas and Fayyad do not work with us, they will pay the price as well."

International Assistance to PA Will be Key

5. (C) Levi emphasized that success will also hinge on ensuring that international donor funds to the PA stay within PA structures, and not "leak out" for use by terrorists.

Levi underscored that this issue has not yet been raised with the Europeans or the Gulf states, and he thought that the GOI might ask the USG to approach the Gulf states about it in the future.

 Hamas Still A Threat

16. (C) Levi indicated that the NSC is, at the same time, nervous that the Europeans might change their attitudes to look more favorably towards Hamas after disengagement and Palestinian parliamentary elections. He said that in the NSC's view, the Europeans had initially taken significant measures against Hamas funds in Europe, but the Israeli MFA is now hearing voices in Europe saying that Hamas should be regarded as a "political entity worthy of dialogue" after disengagement and elections. Levi commented that, as Europe is a source of financing for Hamas, the concern is that the flow of funds will be renewed. To counter this possibility, he said, the NSC is now assembling a dossier that will show evidence connecting the financial infrastructures of Hamas and Al Qaeda. The goal, he said, is to make it clear that if Hamas is allowed to operate freely, Al Qaeda will have freedom of movement as well.

 Show Me the Money

17. (C) Levi indicated that the GOI is also placing a priority on locating and capturing "lost money" that Arafat and his cronies hid away in various accounts. He added that "we've got to get to it before anyone else does." Levi said the GOI is also asking the Egyptians to help the PA because some of the funding that gets to Hamas transits Egypt. He said Saudi Arabia has stopped most of the funding that went to Hamas through its territory.

 Hizballah An Old Enemy

18. (C) Levi stressed that Hizballah is one of the most dangerous enemies facing Israel today. He added that NSC lawyers are working to get the GOI and USG to place 50 companies and NGOs that are operating internationally on an international "blacklist" due to the connections that the GOI says those organizations maintain with Hizballah.

 MFA: Fighting TF in Gaza a PA Responsibility

19. (C) Econoff and poloff also met on August 11 with Ministry of Foreign Affairs (MFA) Nonproliferation and Counterterrorism Director Yehuda Yaakov. Yaakov said that after the GOI's withdrawal from Gaza, the PA will have to shoulder the responsibility for fighting terrorism finance there. He asserted that it will be difficult for the GOI to carry out efforts against terrorism finance in Gaza because of the new political paradigm. He noted that monitoring and controlling the Israel-Gaza border is one way the GOI is going to fight terrorism finance. He said the GOI is going to ensure that money or assets crossing the border and headed for certain organizations, groups or individuals will be stopped. The other way, he said is to work with European countries to exchange information and strengthen joint activities against terror finance.

110. (C) Yaakov said he was not aware of any cooperative effort between the GOI and the PA to fight financing of terrorism in Gaza. He emphasized that the main efforts against terror finance in Gaza would take place at the borders and in the international arena through cooperative engagement and information sharing.

 Yaakov: MFA CT Restructuring

111. (C) Yaakov said that the MFA is re-organizing its counterterrorism department and increasing its numbers to facilitate a more robust operation. He underscored the importance of Post's cooperation and correspondence regarding terror finance designation letters. He said that the increase in the counterterrorism department's budget and manpower will allow it to designate an individual who will be the responsible counterpart to examine these documents and work with the rest of the ministries.

112. (C) Yaakov touched on the European efforts against terror finance, noting that the European nations have recently increased their efforts, especially against Hamas, and said that this is a good sign.

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